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SUBJECT: UK BANKS CONCERNED EU REGULATIONS RUSHED THROUGH WITHOUT GLOBAL COORDINATION

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¶1. (SBU) Summary: At a roundtable discussion, representatives from seven global banks expressed concern that, while the European Commission is pressing forward with financial regulatory reform at top speed, many reforms did not appear coordinated with the UK government or with other G20 countries. Bankers were positive about the results of the G20 London Summit and the recommendations of the de LaRosiere Report of EU Financial Regulation and the UK's Turner Review. Firms, however, hoped for additional practical details and greater cooperation between EU, UK and US regulatory authorities to harmonize implementation of new regulatory measures. End Summary.

Need for Cooperation, Concern that the EU Will Go it Alone

¶2. (SBU) On April 24, representatives of JP Morgan, Morgan Stanley, Goldman Sachs, Credit Suisse, Bank of America, Citigroup and Barclays met with Embassy officers to discuss the outcomes of the G20 London Summit and upcoming regulatory reforms in the financial sector. All were encouraged by the G20 Summit Communique, and praised the coordinated efforts at the Summit. In the Summit's aftermath, however, firms were concerned collective mechanisms for implementing G20 recommendations were unclear or non-existent. A representative from Morgan Stanley said that UK Foreign and Commonwealth Office contacts told him there were in fact no formal working groups and no pathways and that they did not know when the G20 would meet again.

¶3. (SBU) Firms emphasized that UK and European Commission regulatory responses to the crisis also lacked coordination. A representative from Credit Suisse stated that there were clearly differing initiatives in the UK and in the Commission, and it was unclear how the Commission should engage the various member states to iron out these differences. Participants clarified that there was nothing wrong with the EU setting up its own system, but that the Commission needed to consider how its regulations would mesh with global firms. Since the G20, while the Commission has been moving fast in many areas of regulation - including hedge funds, CRAs, consumer protection, financial supervision, capital requirements, clearing houses, and insurance - bank representatives saw the UK's Financial Services Authority moving faster than the Commission on liquidity through a program of quantitative easing as well as in the area of regulating bank branching. Morgan Stanley said the UK would attempt to temper the pace of the Commission at the upcoming EU Council meeting in June.

Banks Support EU Supervision But Not Capital Requirements

¶4. (SBU) Commenting on the de LaRosiere Report and the Turner Review, bank representatives mostly welcomed report recommendations and supported plans for a European Systemic Risk Council but highlighted several sticking points. On the issue of bank

supervision, firms noted that the UK's Turner Review supports EU-wide regulation but believes supervision should remain at the national level. Many firms around the table, however, supported de LaRosiere's support for a single EU supervisory body, arguing that this would make implementation more pragmatic for global firms and be more effective, especially as some EU-member states have weaker regulatory bodies than others. JP Morgan stated that an EU supervisor should be based in London and that the FSA should have an important role in preparing any EU-wide supervisory structure.

¶5. (SBU) Citibank and Credit Suisse said they found both reports a "shopping list" of ideas and proposals from various technical committees without a vision of how the market place would function in the end and without any cost-benefit analysis. While there was a huge consensus that the list of recommendations in Turner/de LaRosiere needed to happen, JP Morgan stated probably less than half needed to be implemented now. Further, firms stated that if all recommendations were implemented at once, banks would be required to hold so much capital and returns on investments would be so limited that no investors would have incentive to lend to banks. Bank representatives stated there was a need for an impact assessment before implementation of new regulations. They also criticized de LaRosiere and Turner reports for lacking a vision of what type of financial systems would ultimately be achieved.

Banks Find UK Government Most Supportive

¶6. (SBU) Bank representative understood there was justifiably a great deal of public distrust in financial markets. However, in the current climate, JP Morgan's representative summarized that because governments did not feel inclined to speak up for the financial sector and the financial sector did not feel in a position to defend itself, the focus was too great on punishing banks. He stated there was a need to rethink how to shape the public's understanding of the

capital markets to get them functioning properly again. Citigroup stated that an upcoming May 7th Win Bischoff report (Bischoff is Citigroup Chair) would clearly outline why financial markets were important.

¶7. (SBU) The bankers stated that UK Government officials are supportive of international banks - "more so than anywhere else." JP Morgan called HM Treasury a reliable and understanding partner, which provided consultation and access unparalleled anywhere else in Europe. He emphasized that "we were not here by accident" and said UK did not favor its own firms over U.S. banks. In this crisis, Morgan Stanley added that HM Treasury and the EU Commission have been interested at every step to see what the market reaction was to various proposals. They felt communications with legislators was easier than ever with politicians genuinely interested in their views.

¶8. (SBU) Comment: The bankers seemed eager to work with policy-makers to mould a better system of financial regulations but were concerned that over-regulation, hasty regulation or incompatible regulations would hinder growth and recovery. As an example, firms commented on the new EU regulations on credit ratings passed last week, noting that while there was a provision that allowed the use of ratings from outside the EU, either via equivalence standards or endorsement scheme, in reality, an attempt at equivalence could be lengthy. The ability to use only EU-approved credit rating agencies would in turn affect how financial institutions determine their reserve requirements.

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